Openness To, and Restrictions Upon, Foreign Investment

With a highly competitive labor force, an entrepreneurial business community and a resilient and steadily growing economy, Bangladesh offers promising opportunities for investment, especially in the energy, pharmaceutical and information technology sectors and in labor-intensive industries. The Government of Bangladesh actively seeks foreign investment, particularly in energy and infrastructure projects. It offers a range of investment incentives under its industrial policy and export-oriented growth strategy, with few formal distinctions between foreign and domestic private investors. Although Bangladesh is facing some near term balance of payments and fiscal pressures, its long-term economic outlook is bright.

According to 2011 World Investment Report, Bangladesh received $ 913.0 million in foreign direct investment in FY11. This is a 24% increase from the previous financial year, but a nominal amount compared to the $31.95 billion in foreign investment that the entire South Asia region attracted. Bangladesh is well positioned to attract increased investment by expanding its success in ready-made garment exports to other sectors, especially those that are labor-intensive. Bangladesh has made gradual progress in reducing some constraints on investment but inadequate infrastructure, financial constraints, bureaucratic delays and corruption continue to hinder foreign investment. The lack of effective judiciary or alternative dispute resolution mechanisms impedes the enforcement of contracts and the resolution of business disputes.

Bangladesh's successful election in December, 2008 set the stage for greater political stability after several years of political uncertainty. From 2006-2009, the country experienced three different governments, leading to discontinuity in dealing with investment proposals. The installment of the current elected government in 2009 brought greater stability for investors, who were previously reluctant to pursue projects due to risks that decisions might be reversed. The approach of national elections in 2013/2014 has raised concern that political uncertainty may hinder investments as continuing disagreement over the institutional mechanism for elections increases the risk of general strikes and street demonstrations that are disruptive to businesses.

Energy and Infrastructure Development

The Government of Bangladesh (GOB) has ambitious plans for infrastructure development, particularly in the power sector, where it pledged to increase generation capacity from 5,000 MW to 7,000 MW by 2013. In 2009-2010, Bangladesh conducted three “road shows” for investors in London, Singapore and New York to encourage investment in energy and infrastructure projects. In 2009, the government launched an initiative with modest funding for public private partnerships (PPP) and began to develop a legal and regulatory framework to implement this initiative. In 2010, due to critical power shortages and chronic delays in implementing power projects, the GOB amended procurement requirements to allow unsolicited bids to expedite the approval of power generation projects. It also aims to formulate a coal policy to encourage investment in developing coal resources and coal-based power projects. Administrative approval of the production plan of a foreign-owned, open-cast coal mine in northwest Bangladesh has remained pending since November 2005 due to local opposition and political pressure from civil society groups. The government has improved the efficiency of the main seaport in Chittagong and begun to build a four-lane highway to connect Chittagong with the capital city of Dhaka. Prolonged and contentious public procurement processes, however, continue to challenge GOB efforts to develop infrastructure projects. The landmark $2.9 billion Padma Bridge project, which will substantially improve interregional connectivity, has been delayed due to the World Bank's concern about transparency in the procurement process.

Legal Framework

Major laws affecting foreign investment include: the Foreign Private Investment (Promotion and Protection) Act of 1980; the Industrial Policy Act of 2005; the Bangladesh Export Processing Zones Authority Act of 1980; the Companies Act of 1994; and the Telecommunications Act of 2001. Legislation offers incentives for investors, including: 100% foreign ownership in most sectors; tax holidays; reduced import duties on capital machinery and spare parts; duty-free imports for 100% exporters of ready-made garments; and tax exemptions. The Government of Bangladesh extended a tax holiday scheme for start-up industries through June 30, 2012. Beneficiary industries include agro-processing; steel production; jute industries; some textile units; and telecom infrastructure except for mobile phones. A tax rebate facility to non-resident Bangladeshi investors was also extended to induce investment from abroad. Import duties and supplemental taxes remain high and constitute an important source of government revenue. Customs bonded warehouses enable companies located in EPZs to avoid duty payments on inputs for goods that will be exported. There are few performance requirements, and these do not generally impede investment. Land registration has historically been prone to disputes over competing titles, and scarcity of land is a significant investment constraint.

While discrimination against foreign investors is not widespread, the government frequently promotes local industries and some discriminatory policies and regulations exist. For example, the government has withheld approvals for imported medicines that compete with local producers and it has required majority local ownership of new shipping companies, albeit with exemptions for existing foreign-owned firms.

Investment Promotion Agencies

The Board of Investment (BOI) and the Bangladesh Export Processing Zones Authority (BEPZA) are the primary investment promotion agencies in Bangladesh. Companies must register with the BOI to obtain benefits such as tax incentives or preferential duties for imported equipment. The BOI also administers the approval of some foreign loans and payments on behalf of the Bangladesh Bank. Though the BOI is frequently touted as a one-stop shop for all investors, authority for managing foreign investment remains fragmented. The BOI can register investors in industrial projects outside the Export Processing Zones (EPZs) and assist them with tax inquiries, land acquisition, utility hook-ups, and incorporation. The BEPZA performs the same functions for companies investing in the EPZs. Investors in infrastructure and natural resource sectors, including power, mineral resources and telecommunications must seek approval from the corresponding government ministries. Although the BOI is housed organizationally in the Prime Minister's Office, regulatory and administrative powers remain vested in the line ministries. Companies often complain that ministries require unnecessary licenses and permissions.

Currency Convertibility

Free repatriation of profits is allowed and profits are almost fully convertible on the current account; however, companies report that the procedures for repatriation of foreign currency are lengthy and cumbersome. After rising fuel imports helped swing balance of payments from surplus to deficit in 2010-2011, scarcity of foreign exchange and currency depreciation have increased convertibility risks.

Privatization

The Government of Bangladesh privatized some state-owned enterprises (SOEs) during the past twenty years, but many SOEs retain an important role in the economy, particularly in the financial and energy sectors. The current government has taken steps to restructure several SOEs to improve their competitiveness. Biman Bangladesh Airline was converted into a public limited company that initiated a rebranding and fleet renewal program, including the purchase of 10 aircraft from Boeing. Three nationalized commercial banks (NCBs) -- Sonali, Janata and Agrani -- have been converted to public limited companies. Bangladesh allows private investment in power generation and natural gas exploration, but efforts to allow full foreign participation in petroleum marketing and gas distribution have stalled.

The telecommunications sector was liberalized during the last decade, leading to the development of a competitive cellular phone market. The Government has been slow to allow greater competition for international connectivity, and internet telephony is still restricted. In 2007, the Caretaker Government revised the International Long Distance Telecommunication Services Policy of 2007 to legalize VoIP, but the government has not yet implemented this policy.

Business Environment Indices

Measure	**Year**	**Index/Ranking**
Transparency International Corruption Index	2011	120 of 183 countries
Heritage Economic Freedom	2012	130 of 179 countries
World Bank Doing Business	2012	122 of 183 countries
MCC Government Effectiveness	2011	42nd percentile
MCC Rule of Law	2011	63rd percentile
MCC Control of Corruption	2011	42nd percentile
MCC Fiscal Policy	2011	25th percentile
MCC Trade Policy	2011	8th percentile
MCC Regulatory Quality	2011	42nd percentile
MCC Business Start Up	2011	78th percentile
MCC Land Rights Access	2011	21st percentile
MCC Natural Resource Management	2011	42nd percentile

Conversion and Transfer Policies

Bangladesh Bank, the central bank of Bangladesh, does not fix the exchange rate against foreign currencies, but it regulates conversion. The Bangladesh Taka is almost fully convertible for current account transactions, such as import trade and travel needs, but not for capital account transactions, such as investing or currency speculation. The Foreign Investment Act guarantees the right of repatriation of invested capital, profits, capital gains, post-tax dividends, and approved royalties and fees. The central bank's exchange control regulations and the U.S.-Bangladesh Bilateral Investment Treaty (in force since 1989) provide similar investment transfer guarantees. In practice, foreign firms are able to repatriate funds but companies report that the repatriation process is onerous and cumbersome. As balance of payment deficits contributed to foreign exchange shortages in 2011, companies have reported increasing challenges in conversion and transfer of funds. The Board of Investment may need to approve repatriation of royalties and other fees. The Bangladesh Taka depreciated more than 15 percent against the U.S. dollar in 2011 and further depreciation is likely in 2012.

Expropriation and Compensation

Since the Foreign Investment Act of 1980 banned nationalization or expropriation without adequate compensation, the Government of Bangladesh has not nationalized or expropriated property from foreign investors. In the years immediately following independence in 1971, widespread nationalization resulted in government ownership of over 90% of fixed assets in the modern manufacturing sector, as well as all banking and insurance interests, except those in foreign (but non-Pakistani) hands. Domestically owned cotton textiles, jute, and sugar manufacturing units, none of which were owned by foreigners, were placed under government control.

Dispute Settlement

A fundamental impediment to investment in Bangladesh is a weak and slow legal system in which the enforceability of contracts is uncertain. The judicial system does not provide for interest to be charged in tort judgments, which implies there is no penalty for delaying proceedings. In a significant milestone, the Caretaker Government in 2007 separated the country's judiciary from the executive, but the executive has retained strong influence over the judiciary with control of judicial appointments. Reforms of other pillars of the justice system including the police, courts, and legal profession are also necessary. In lower courts, corruption is widely perceived as a serious problem. The High Court's previous reputation for impartiality has also been brought into question in recent years. Bangladeshi law allows contracts to refer dispute settlement to third country forums for resolution.

Bangladesh is a signatory to the International Convention for the Settlement of Disputes (ICSID) and it acceded (on May 6, 1992) to the United Nations Convention for the Recognition and Enforcement of Foreign Arbitral Awards. Bangladesh is also a party to the South Asia Association for Regional Cooperation (SAARC) Agreement for the Establishment of an Arbitration Council, signed November 13, 2005, which aims to establish a permanent alternative dispute resolution center in one of the SAARC member countries. A provision of the U.S.-Bangladesh Bilateral Investment Treaty permits submission of investment disputes to ICSID for third-party settlement.

The ability of the Bangladeshi judicial system to enforce its own awards is weak, and there is no reason to believe that enforcement of foreign judgments would be stronger. The Bangladesh Export Promotion Bureau is sometimes helpful in facilitating dispute settlement for export-related transactions. Major Bangladeshi trade and business associations can also help to resolve transaction disputes.

Many laws affecting investment in Bangladesh are old and outdated. Bankruptcy laws, which apply mainly to individual insolvency, are not being used because of a web of falsified assets and uncollectible cross-indebtedness supporting insolvent banks and companies. A Bankruptcy Act was enacted in 1997 but has been ineffective in addressing the insolvency and cross-indebtedness problems of borrowers.

Dispute settlement is also hampered by shortcomings in accounting practices and in the registration of real property. With the exception of those conducted by a few internationally affiliated accounting firms, audits of balance sheets and profit and loss statements often follow clients' instructions and fail to conform to international standards. Documents affecting title to real property are often not registered, complicating transfer of ownership and collateral agreements.

Performance Requirements/Incentives

The GOB's industrial policies favor manufacturing and labor-intensive industries that use local inputs. A variety of subsidies and other incentives are available to different industrial ventures, primarily in export sectors and, to a certain extent, import substitution sectors. The Government also provides loans at concessionary rates through state banks and government-owned development banks for exports, cottage industries, and agriculture. These incentives are available to both domestic and foreign investors.

In order to simplify the tariff structure and generate more revenue through import duties, the government developed a four-tier duty structure with higher duties on finished products but reduced duties on industrial inputs such as capital machinery, spare parts, basic raw materials, and intermediate raw materials.

The government also offers a variety of tax incentives to selected sectors of the economy, including:

-- A 50% rebate for taxable income generated from export earnings;

-- An income tax exemption on export earnings from handicrafts and cottage industries;

-- Tax holidays of four to six years, depending on location, for new industrial enterprises in the textile, pharmaceuticals, plastic, ceramics, sanitary ware, iron, steel, fertilizer, insecticide, computer hardware, petrochemicals, pharmaceutical raw materials, agricultural equipment, and industrial machinery. (Note: This provision has been extended annually, with the current extension allowing business to begin claiming this incentive by June 2012.)

-- A 10-year tax holiday for enterprises in the EPZs;

-- Accelerated depreciation for enterprises not eligible for a tax holiday; and,

-- Income tax exemptions for up to 15 years for power projects.

Right to Private Ownership and Establishment

Foreign and domestic private entities can establish and own, operate, and dispose of interests in most types of business enterprises. Four sectors, however, are reserved for government investment:

- arms and ammunition and other defense equipment and machinery
- forest plantation and mechanized extraction within the bounds of reserved forests
- production of nuclear energy
- security printing

Protection of Property Rights

Although land, whether for purchase or lease, is often critical for investment and as security for loans, antiquated real property laws and poor record-keeping systems can complicate land and property transactions. Land registration records have been historically prone to competing claims. Instruments take effect from the date of execution, not the date of registration, so a bona fide purchaser can never be certain of title. Property owners can obtain mortgages, but parties avoid registering mortgages, liens, and encumbrances due to the high cost of stamp duties (i.e., transaction taxes based of the property) and other charges.

Bangladesh has slowly made progress bringing its legislative framework into compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The GOB enacted a Copyright Law in July 2000 (later amended in 2005) and a Trademarks Act in 2009, and it is preparing a draft Patent and Design law to modernize its current Patent and Design legislation dating from 1911. These amendments are intended to bring the country's intellectual property laws into full compliance with WTO TRIPS requirements. Implementing regulations, however, must also be drafted.

The government has limited resources for IPR protection. Enforcement actions against IPR violators are rare despite widespread availability of pirated goods. The government also sets a poor example by failing to account fully for software in its tenders. A number of American firms, including film studios, manufacturers of consumer goods, and software firms, have reported violations of their intellectual property rights. Bangladesh is a member of the World Intellectual Property Organization (WIPO); and acceded to the Paris Convention on Intellectual Property in 1991.

Transparency of the Regulatory System

Starting from a position of extreme over-regulation, the government has gradually moved since 1989 to decrease regulatory obstruction of private business. Although some officials have shown genuine commitment to these reforms, in general, changes encountered broad-based resistance from many groups in the economy, including influential members of the business community. The official chambers of commerce include manufacturers in protected industries and well-connected commission agents pursuing government contracts. Chamber members have called for a greater voice for the private sector in government decisions and for privatization, but at the same time many support protectionism and subsidies for their own industries.

Policy and regulations in Bangladesh are often not clear, consistent, or publicized. Generally, the civil service, businesses, professionals, trade unions, and political parties have vested interests in a system in which confidentiality is used as an excuse for lack of transparency and in which patron-client relationships are the norm. Businesses must always turn to civil servants to get action, yet may not receive any action, even with the support of higher political levels. Traditionally, the country's poorly paid civil servants have regarded business people with suspicion and often used registration and regulatory processes as rent-seeking opportunities.

In practice, government laws, regulations and their implementation do not reduce distortions or impediments to investment, but create them. Unhelpful treatment of businesses by some government officials, coupled with other investment climate constraints, raise startup and operational costs, add to risk, and counteract the government's praiseworthy investment incentives. The government has historically limited opportunities for the private sector to comment on proposed regulations but several agencies, including the Commerce Ministry and telecommunications regulator have posted draft legislation online and solicited input from the business community.

Efficient Capital Markets and Portfolio Investment

While Bangladesh has made gradual progress in developing capital markets, the markets have relied primarily on domestic investors with limited participation from international portfolio investors. A 2010-2011 stock market bubble and correction underscored weaknesses in capital markets and regulatory oversight. The Dhaka Stock Exchange (DSE) market capitalization rose to a peak of $48 billion in December 2010 before declining to roughly $30 billion in January 2012. A sharp increase in retail investors combined with loose monetary policy and lax regulatory oversight fueled inflation of share prices in 2010.

As steady economic growth has fueled rising domestic investment, Bangladeshi firms have increasingly relied on capital markets to finance investment projects. The DSE has attracted some foreign portfolio investors to the country's capital market; however the volume of foreign investment in Bangladesh has remained a small fraction of total market capitalization. As a result, foreign portfolio investment has had limited influence on market trends and Bangladesh's capital markets have been largely insulated from volatility of international financial markets. The government offloaded its shares of a number of State-owned Enterprises (SOEs) and government shares of various private companies in order to increase the supply of shares in the capital market.

Foreign investors have access to local credit markets, but many seek offshore financing. If they finance locally, it is usually with a foreign bank branch. Three state-owned banks, known as nationalized commercial banks (NCBs), comprise a significant portion of the banking sector's total assets. The largest NCB has assets totaling approximately $4.6 billion. Financial analysts estimate that a significant share of the country's total asset base is non-performing based on their long-outstanding debts to the NCBs. The share of non-performing assets for private commercial banks ranges from two to eleven percent. The World Bank has approved a $250 million International Development Association (IDA) soft loan to Bangladesh for an ongoing enterprise growth and bank modernization project that will provide technical assistance to four NCBs.

The Securities and Exchange Commission (SEC) was formed in 1993 to regulate the DSE and CSE and protect investors. In 1997, the SEC imposed new restrictions on the involvement of foreign investors in the Bangladesh capital market. The guidelines stipulate that 10 percent of primary issues are reserved for non-resident Bangladeshis. Major foreign investors have protested these measures. Foreign investors point out that this measure exacerbates a significant market drawback: the difficulty of buying or selling in volume over a reasonably short period. The SEC and the Institute of Chartered Accountants of Bangladesh have the task of enforcing reporting and audit requirements and bringing those requirements up to international standards.

Competition from State-Owned Enterprises (SOEs)

SOEs are active in banking, energy, transportation and agricultural sectors. SOEs usually report to line Ministries, though the government has allowed some increased autonomy for certain SOEs such as Biman Bangladesh Airline. State-owned banks generally maintain a wider network of branches and depositors than private banks, but private banks have gradually increased their role. Private energy companies can invest in power generation through Independent Power Purchase (IPP) agreements with the Bangladesh Power Development Board. Oil and gas firms can pursue exploration and production ventures through Production Sharing Agreements with the state-owned oil and gas company, Petrobangla. SOEs maintain control of rail transportation, but private companies compete freely in air and road transportation.

Corporate Social Responsibility (CSR)

The business community is increasingly aware and engaged in CSR activities with multinational firms and local business conglomerates leading the way. Consumers are generally less aware of CSR and there is little pressure from consumers or shareholders for companies to engage in CSR activities.

While many international firms are aware of OECD guidelines and international best practices in CSR, most local firms have limited familiarity with international standards.

Political Violence

Incidents of violence targeting foreign projects or installations have generally been isolated and criminal, rather than political, in nature. Extortion of money from businesses by thugs claiming political backing is common. Clashes between supporters of rival political parties and their student and youth wings and even factions within the same party are frequent occurrences. General strikes and blockades called by political parties mostly affect businesses by keeping workers away with the threat of violence and blocking transport, resulting in productivity losses. Vehicles and other property are at risk from vandalism or arson during such programs, and looting of shops has occurred.

Responding to public concern over law and order, the government in March 2004 created a special elite force, known as the Rapid Action Battalion (RAB) as part of its anti-crime initiative. The RAB is comprised of members of the armed forces, the police, and the Bangladesh Rifles and Ansars, both paramilitary groups. The RAB became operational in June 2004 and has been credited by many Bangladeshis with improving domestic law and order. Soon after its formation, however, the local media began reporting on "cross-fires", a euphemism for extrajudicial killings, particularly by the RAB.

In February 2005 the government banned two extremist groups: Jama'atul Mujahedin Bangladesh (JMB) and Jagroto Muslim Janata Bangladesh (JMJB). On August 17, 2005, JMB, with the assistance of JMJB, set off over four hundred small, improvised explosive devices (IEDs) in a coordinated attack in 63 of the 64 districts of Bangladesh. The devices were accompanied by leaflets demanding the establishment of Islamic law in Bangladesh. From September to early December 2005, JMB conducted several suicide attacks targeting local judges, courts and district government facilities. The government responded vigorously, arresting several high-ranking leaders of JMB and recovering detonators, explosives and related materials used to construct IEDs. As of January 2012, there had been no attacks by extremist groups on foreign diplomatic, commercial or social interests in Bangladesh; the current Awami League government has demonstrated a strong commitment to combating terrorism.

Corruption

Bangladesh has made some progress in reducing corruption during the last decade but it remains a serious impediment to investment and economic growth in Bangladesh. While the Government has established legislation to combat bribery, embezzlement and other forms of corruption, enforcement is inconsistent. The Caretaker Government attempted to address the culture of impunity that existed in Bangladesh by prosecuting corruption cases, implementing systemic reforms, and strengthening the Anti-Corruption Commission (ACC) as the main institutional anti-corruption watchdog. The Caretaker Government also took steps to improve administrative efficiency in public services such as law enforcement agencies, power generation and distribution, ports, and customs. The current Awami League-led government has publicly underscored its commitment to anti-corruption efforts and reaffirmed the need for a strong ACC. However, efforts to ease public procurement rules and proposals to curb the independence of the ACC may undermine institutional safeguards against corruption. Bangladesh is a party to the UN Anticorruption Convention, but has not joined the OECD Convention on Combating Bribery of Public Officials.

Corruption is widely perceived to be common in public procurement, tax and customs collection, and regulatory authorities. Corruption, including bribery, raises the costs and risks of doing business. By some estimates, off-the-record payments by firms may result in annual losses of 2%–3% of GDP. Corruption has a corrosive impact on the broader business climate market and opportunities for U.S. companies in Bangladesh. It also deters investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: http://www.justice.gov/criminal/fraud/fcpa.

- **UN Convention:** The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see http://www.unodc.org/unodc/en/treaties/CAC/signatories.html). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption, ranging from basic forms of corruption such as bribery and solicitation, embezzlement and trading in influence to the concealment and laundering of the proceeds of corruption.

- Information about the OECD Anti-bribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Anti-bribery Recommendation and Good Practice Guidance Annex for companies: http://www.oecd.org/dataoecd/11/40/44176910.pdf

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See http://www.transparency.org/publications/gcr.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: http://go.worldbank.org/RQQXYJ6210.

Bilateral Investment Agreements

The U.S.-Bangladesh Bilateral Investment Treaty, signed on March 12, 1986, entered into force on July 23, 1989. Bangladesh has also signed investment treaties with Austria, Belgium, Canada, China, Democratic Peoples Republic of Korea, France, Germany, Indonesia, Iran, Italy, Japan, Malaysia, Pakistan, Philippines, Poland, Republic of Korea, Romania, Switzerland, Thailand, The Netherlands, Turkey, Uzbekistan and the United Kingdom. The Foreign Investment Act includes a guarantee of national treatment.

A bilateral treaty between the United States and Bangladesh for the avoidance of double taxation was signed on September 26, 2004 and ratified by the United States on March 31, 2006. The parties exchanged Instruments of ratification on August 7, 2006. The treaty has been effective for most taxpayers beginning in their 2007 tax year.

From 2001-2010, Bangladesh has successfully negotiated several regional trade and economic agreements, including the South Asian Free Trade Area (SAFTA), the Asia-Pacific Trade Agreement (APTA), and the Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC). Bangladesh has taken steps to strengthen bilateral economic relations with India. As a founding member of the WTO and as a Least-Developed Country (LDC), Bangladesh has been an active advocate for LDC interests in WTO negotiations.

OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) provides insurance coverage for some U.S. firms currently doing business in Bangladesh. OPIC and the GOB signed an updated bilateral agreement in May 1998. Bangladesh is a member of the Multilateral Investment Guarantee Agency.

Labor

Bangladesh has a population of about 155 million people and a labor force of 70 million people, with 63% working in the agricultural sector, 11% in industry, and the remaining 26% in the services sector. Low official unemployment statistics obscure a huge and growing under-employment problem in Bangladesh. Bangladesh's comparative advantage in cheap labor for manufacturing is partially offset by low productivity due to low skills, poor management, and inefficient infrastructure and machinery.

Bangladesh has labor laws that specify employment conditions, working hours, minimum wage levels, leave policies, health and sanitary conditions, and compensation for injured workers. Freedom of association and the right to join unions are guaranteed in the Bangladesh Constitution. There are over 6,400 registered trade unions in Bangladesh, with over 1.9 million union members. In practice, compliance and enforcement of labor laws is inconsistent and companies frequently discourage the formation of active labor unions. Historically, unions are heavily politicized, and labor-management relations are often contentious, particularly in the ready-made garment sector.

In July 2004, the Bangladesh parliament enacted a law granting limited freedom of association rights in the export processing zones. Workers of the industrial units are allowed to form a welfare council to develop and grow into organizations, defending their welfare through collective bargains, according to the law which was renewed and updated in 2010. The implementation of workers' welfare councils in the export processing zones is uneven with many larger factories ignoring the provision altogether.

Labor disputes do not necessarily need to be heard before a court. Many companies have found it effective to resolve issues before a Labor Tribunal.

Child Labor

Bangladeshi laws do not uniformly prohibit the employment of children or set a minimum age for employment. Numerous laws prohibit child labor in certain sectors, ranging from transport workers to tea plantation labor, but these have not addressed the informal sectors, such as agriculture and domestic work, where the majority of children are employed. As a result, child labor in Bangladesh has historically been a fact of life. On July 4, 1995, Bangladesh's garment exporters association signed a memorandum of understanding (MOU) with the United Nations Children's Fund (UNICEF) and the International Labor Organization (ILO) under which child laborers in the EPZ textile factories were removed and enrolled in education programs. ILO-assisted monitoring teams, which found child laborers in 43% of EPZ factories in 1996, found them in fewer than 5% in 2001. The MOU program has been phased out, and the U.S. Embassy considers the project a success, with most child labor now eradicated from the EPZs. Child labor laws outside of the EPZs are not effectively enforced. Bangladesh, however, is working to improve compliance with ILO conventions on child labor.

In response to a petition from U.S. labor groups, the office of the U.S. Trade Representative (USTR) is reviewing labor practices in Bangladesh to determine whether insufficient enforcement of labor rights could disqualify Bangladesh from eligibility for preferential U.S. market access under the Generalized System of Preferences (GSP).

The International Labor Organization, in partnership with the International Finance Corporation, will begin a Better Work program in Bangladesh in late-2012. The program will be similar to Better Factories Cambodia, which was established in 2001, but on a much larger scale to include Bangladesh's entire ready-made garment sector.

Foreign Trade Zones/Free Ports

Under the Bangladesh Export Processing Zones Authority Act of 1980, the government established an EPZ in Chittagong in 1983. Additional EPZs now operate in Dhaka (Savar), Mongla, Ishwardi, Comilla, and Uttara. In addition, two new EPZs are being established in Karnaphuli (Chittagong) and Adamjee (Dhaka). Korean investors are developing a private EPZ in Chittagong. Investments that are 100% foreign-owned, joint ventures and 100% Bangladeshi-owned companies are all permitted to operate and enjoy equal treatment in the EPZs. Approximately a dozen U.S. firms - mostly textile producers - are currently operating in Bangladesh EPZs. Investors are generally satisfied with the operation of Bangladesh's EPZs, which have played a significant role in the success of Bangladesh's ready-made garment industry.

In 2010, Bangladesh enacted a Special Economic Zone law that allows the creation of privately-owned Special Economic Zones (SEZs) that can produce for export and domestic markets. The International Finance Corporation is assisting the government to establish a Special Economic Zone Authority, modeled after BEPZA, to implement the new law and oversee the establishment of SEZs.

Foreign Direct Investment Statistics

According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2011, total inward foreign direct investment to Bangladesh was $913 million in 2010, a 24% increase from $700 million in 2009. Outward foreign direct investment flows were negligible. UNCTAD estimated the stock of inward foreign direct investment was $6.0 billion in 2010. Major sources of investment include the U.S., the United Kingdom., South Korea, Japan, Norway and India.

Foreign Direct Investment Inflows:

Year	Amount in US $ million
2010	913
2009	700
2008	1,086
2007	666
2006	792
2005	845

Sources: UNCTAD, World Investment Report 2011